

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN EXAMINATION BY THE PUBLIC)	
SERVICE COMMISSION OF THE)	
APPLICATION OF THE FUEL)	
ADJUSTMENT CLAUSE OF KENTUCKY)	CASE NO. 9173
UTILITIES COMPANY FROM)	
NOVEMBER 1, 1982, TO OCTOBER 31,)	
1984)	

INTERIM ORDER

Pursuant to 807 KAR 5:056, Sections 1(11) and 1(12), the Public Service Commission ("Commission") issued its Order on November 13, 1984, scheduling a hearing to review the operation of the fuel adjustment clause of Kentucky Utilities Company ("KU") for the period from November 1, 1982, to October 31, 1984, and to determine the amount of fuel cost that should be in the base rates in order to reestablish the fuel clause charge pursuant to 807 KAR 5:056, Section 1(2).

In response to the Commission's requests for information, KU proposed to leave its base fuel cost of 18.91 mills per KWH unchanged. In Case No. 8590, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Kentucky Utilities Company from November 1, 1980, to October 31, 1982, the Commission selected July 1982 as the base period (test month) for the purpose of arriving at the base fuel cost [F(b)] and the KWH sales [S(b)] components of the fuel adjustment clause. KU provided all requested information, and following proper notice, a hearing was held on April 4, 1985.

The sole intervenor in this case was the Consumer Protection Division of the Attorney General's Office ("AG"). The AG did not offer testimony, and on cross-examination did not challenge the level of actual fuel cost included in KU's monthly fuel filings, or the proposed base fuel cost of 18.91 mills per KWH.

In establishing the appropriate level of base fuel cost to be included in KU's rates, the Commission must determine whether the proposed base period fuel cost per KWH is representative of the level of fuel cost currently being experienced by KU. The Commission's review of generation mix, unit outages and unit availability disclosed that July 1982 was a reasonably representative generation month for KU. The Commission's analysis of KU's monthly fuel clause filings shows that the actual fuel cost incurred for the year ended October 1984 ranged from a low of 17.61 mills per KWH in February 1984 to a high of 21.15 mills per KWH in October 1984. The Commission is of the opinion that KU has complied with 807 KAR 5:056 regarding the calculation and application of the fuel adjustment clause, and that the base period fuel cost of 18.91 mills per KWH should be approved.

Forced Outage

KU experienced a forced outage on its Ghent No. 1 unit during the period under review, from August 10, 1984, to October 17, 1984. KU proposed to recover approximately \$2.2 million additional fuel expenses for substitute generation, due to the lost generation capacity from Ghent No. 1 under the provisions of 807 KAR 5:056, Section 2(4). This regulation allows the recovery of additional fuel costs for substitute power during a

forced outage if it is caused by an "Act of God" and not the result of faulty equipment, faulty maintenance, faulty manufacture, faulty installation, faulty design or faulty operation.

This forced outage was initiated by several pieces of hard plastic being drawn into the plant service water system and becoming wedged in the backwash mechanism of the service water strainer. This set off a sequence of events that culminated in the backflow of low temperature steam vapor into the intermediate pressure ("IP") turbine thereby causing extensive damage by subjecting the outer shell and rotor sections of the IP turbine to a large temperature differential.

The prefiled reports and testimony by KU witnesses during the hearing agree that the backflow of low temperature steam vapor into the turbine would not have occurred if a check valve in the steam line had not warped and failed to seat properly.

Since the check valve warped and failed to seat properly, the Commission is of the opinion that the forced outage at Ghent No. 1 was the result of either faulty equipment or faulty operation and, therefore, KU should not be allowed to collect the additional fuel expenses from its substitute generation.

Coal Contracts

In Case No. 8590, the Commission issued an Order on May 19, 1983, requiring KU to provide information concerning its coal supply agreements with River Processing, Inc., ("River Processing") and South East Coal Company ("South East"). Upon the

motions of KU and the AG, the information request was held in abeyance to prevent KU from disclosing legal opinions and proprietary analyses which concern pending issues between KU and the coal suppliers.

KU had initiated a declaratory judgment action against River Processing, in the Circuit Court of Fayette County, Kentucky, which was subsequently withdrawn upon a renegotiation of the coal supply agreement. KU has also initiated litigation against South East concerning their coal supply agreement.

Despite the steps KU has taken to refine its coal supply agreements with River Processing and South East, the Commission is still concerned that the price KU is paying for coal may be excessive under both coal supply agreements. The Commission will await the outcome of KU's litigation against South East before resuming the investigation commenced in Case No. 8590. Therefore, the Commission is of the opinion that the findings with respect to KU's fuel procurement practices which would ordinarily be made at this time should continue to be held in abeyance and that this Order should be an Interim Order. A final Order will be issued upon conclusion of the Commission's review of KU's fuel procurement practices.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. KU has complied with 807 KAR 5:056 regarding the calculation and application of its fuel adjustment clause.

2. No findings are made at this time with respect to the propriety of KU's fuel procurement practices and this matter should be held in abeyance until the Commission has concluded its review.

3. KU's proposed recovery of the additional fuel expenses in connection with the forced outage at Ghent No. 1 should be disallowed.

4. The test month of July 1982 should be used as KU's base period in this proceeding.

5. KU's proposed base period fuel cost of 18.91 mills per KWH should be approved.

6. The base fuel cost of 18.91 mills per KWH is the same base fuel cost currently included in KU's base rates.

IT IS THEREFORE ORDERED that this docket shall remain open until the Commission has concluded its investigation of KU's fuel procurement practices.

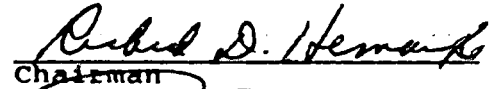
IT IS FURTHER ORDERED that KU's proposed recovery of the additional fuel expenses in connection with the forced outage at Ghent No. 1 be and it hereby is denied.

IT IS FURTHER ORDERED that KU's proposed base period fuel cost of 18.91 mills per KWH be and it hereby is approved.

IT IS FURTHER ORDERED that the base rates included in KU's tariffs currently on file with the Commission shall remain unchanged as a result of the Commission's Order in this case.

Done at Frankfort, Kentucky, this 16th day of May, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary